MFSA MALTA FINANCIAL SERVICES AUTHORITY

Circular

11 August 2022

Circular to Credit Institutions on the Removal of Temporary Capital and Liquidity Relief Measures related to the COVID Pandemic

Reference is made to the circular issued by The Malta Financial Services Authority (hereunder the 'Authority') in March 2020 in relation to the Temporary Capital and Operational Relief in Reaction to Coronavirus (COVID-19), whereby the Authority had extended the measures announced in the ECB Banking Supervision Press Release to all credit institutions licensed in terms of the Banking Act (Chapter 371 of the Laws of Malta).

A. Removal of the Capital and Liquidity Relief Measures

In March 2020, in order to mitigate the impact of the COVID-19 on the banking sector, banks were allowed to temporarily operate with Capital and Liquidity below the level defined by the Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR). In an ECB Press Release, dated 17 December 2021, the ECB announced that it would not be extending the liquidity relief beyond 01 January 2022 meaning banks were expected to maintain an LCR of above 100%. The MFSA confirms that liquidity relief which allowed banks in Malta to operate with an LCR below 100% also expires from today (all banks in Malta currently operate above 100%).

In another ECB Press Release, dated 10 February 2022, the ECB expected banks to operate above their P2G after 1 January 2023. In this regard, the MFSA is also confirming it expects all banks to operate above their P2G from 1 January 2023.

B. Composition of Capital for Pillar 2 Requirements

In the same ECB Press Release, banks were allowed to use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital, for example Additional Tier 1 or Tier 2 instruments, to meet the P2R. This measure essentially brought forward a measure that was scheduled to come into effect with the latest revision of the Capital Requirements Directive (CRD V). In this regard, banks are expected to abide with Article 104(a)(4) of the CRD and regulation 9A, sub-regulations 6 to 10 of S.L. 371.16.

Any queries in relation to the above should be directed to Banking Supervision (Policy and Legal) on bsupolicy@mfsa.mt.

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